

COMPUTER FORMULA (OPTIONAL WITHHOLDING METHOD)

Employers may compute Kentucky income tax withholding by the computer formula shown below. No other formula or withholding method may be used unless specific written approval is granted by the Department of Revenue. Further information may be secured by writing the Withholding Tax Branch, Kentucky Department of Revenue, P.O. Box 1274, Frankfort, Kentucky 40602-1274.

2006 Kentucky Tax Rate Schedule

2% of the first \$3,000 of net income
3% of the next \$1,000 of net income
4% of the next \$1,000 of net income
5% of the next \$3,000 of net income
5.8% of the next \$67,000 of net income
6% of the net income in excess of \$75,000

Formula:

Gross wages for pay period multiplied by the number of annual pay periods equals annual gross income. Annual gross income minus the standard deduction equals taxable income. Compute tax on taxable income using the Kentucky tax rate schedule to determine gross annual tax. Gross annual tax minus tax credits (\$20 times the number of tax credits claimed) divided by number of pay periods annually equals Kentucky withholding tax for pay period.

2006 Example:

Payroll Frequency	Monthly
Gross Monthly Wages	\$3,020
One Tax Credit (exemption)	\$20

1. Compute annual gross income: $\$3,020 \times 12 = \$36,240$
2. Compute taxable income: $\$36,240 - \$1,970 = \$34,270$
3. Compute tax: $\$34,270 \times \text{tax rate} = \$1,803.66$
4. Deduct tax credit (exemption): $\$1,803.66 - \$20 = \$1,783.66$
5. Compute tax for tax period: $\$1,783.66 \div 12 = \148.64 (*monthly withholding*)
(Divide by number of pay periods)

NOTE: The Department of Revenue annually adjusts the standard deduction in accordance with KRS 141.081(2)(a). Employers that use the formula to compute the amount of withholding may use the standard deduction for the current year.